

Message Text

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73

ACTION ARA-10

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04

NSAE-00 SIL-01 DODE-00 PM-04 H-02 L-03 NSC-05 PA-01

PRS-01 SP-02 SS-15 USIA-06 AID-05 TRSE-00 /074 W

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R 262124Z AUG 76

FM AMEMBASSY SANTIAGO
TO SECSTATE WASHDC 1086

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E.O. 11652: N/A

TAGS: ELAB PINT EFIN CI
SUBJECT: REAL WAGES

REF: A) SANTIAGO 7617; B) IBRD REPORT NO. 966-CH. "ECONOMIC
MEMORANDUM ON CHILE," DECEMBER 24, 1975

1. INTRODUCTION AND SUMMARY: REF A REPORTED THAT DEMOCRATIC TRADE
UNIONS DIRECTED LETTERS TO THE MINISTRY OF LABOR CRITICIZING GOC
LABOR POLICIES, AND SAYING THAT CHILEAN WORKERS HAD SUFFERED A
DRAMATIC DECLINE IN REAL WAGES. REAL WAGES, ACCORDING TO THE LETTERS,
HAD DECLINED 55 PERCENT SINCE JANUARY 1973. THIS TELEGRAM QUALIFIES
THAT STATEMENT BY NOTING THAT IF PARALLEL MARKET PRICES ARE TAKEN
INTO CONSIDERATION, REAL WAGES TODAY ARE ROUGHLY THE SAME AS THEY
WERE IN JANUARY 1973 FOR MANY THROUGH PERHAPS NOT MOST CHILEANS.
END INTRODUCTION AND SUMMARY.

2. CALCULATIONS OF REAL WAGES DEPEND, IN THE FIRST INSTANCE, ON
HOW PRICE LEVELS ARE COMPILED. DURING THE ALLENDE PERIOD, 1971-73,
THERE WERE, EFFECTIVELY, TWO LEVELS. THOSE WORKERS WHO SUPPORTED
THE REGIME HAD THE BENEFIT OF SUBSIDIZED OFFICIAL PRICES. OTHERS,
INCLUDING THE MIDDLE CLASS OPPOSITION, BOUGHT INCREASINGLY IN THE
PARALLEL MARKET (THE "BLACK MARKET"), WHICH, BY THE MIDDLE OF 1973,
HANDLED A VERY LARGE PORTION OF FINAL CONSUMER TRANSACTIONS.

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3. THE OFFICIAL GPI FOR THE PERIOD 1971-73 WAS DISTORTED BY THE

SUBSIDY ELEMENT IN THE OFFICIAL PRICES. ACCORDINGLY, THE IBRD CALCULATED ITS OWN GPI FOR CHILE FOR 1971-73, USING ACTUAL PRICES INCLUDING THOSE OF PARALLEL MARKETS. THIS STUDY RELIED ON CONTEMPORARY MARKET BASKET SURVEYS BY THE UNIVERSITY OF CHILE.

4. IN ORDER TO CALCULATE REAL WAGES, THE NOMINAL WAGES OF THE INDEX OF SALARIES AND WAGES (ISW) ARE DIVIDED BY THE PRICES THAT WAGE EARNERS HAVE TO PAY, AS EVIDENCED BY THE CPI. DIVIDING THE ISW BY THE OFFICIAL CPI THAT EMBODIED SUBSIDIZED PRICES YIELDS HIGHER REAL WAGES FOR JANUARY 1973, AND A DRAMATIC DROP BY APRIL 1976, WHEN EVERYONE WAS PAYING MARKET PRICES. BY THIS METHOD, THE DROP IN REAL WAGES CALCULATES TO 45 PERCENT (NOT 55 PERCENT AS CALCULATED BY THE UNIONISTS). IF, HOWEVER, WE USE THE IBRD CPI, WE ARRIVE AT CONSIDERABLY LOWER REAL WAGES FOR JANUARY 1973, SUCH THAT REAL WAGES APPEAR TO HAVE BEEN AT ABOUT THE SAME LEVEL IN JANUARY 1973 AND IN APRIL 1976.

5. THUS, THE EXTENT OF THE DROP IN REAL WAGES SINCE JANUARY 1973 DEPENDS ON WHETHER ONE IS TALKING ABOUT THE GROUP, ESTIMATED AT 60 PERCENT OF THE WORKFORCE, THAT ONCE HAD THE BENEFIT OF SUBSIDIZED PRICES, OR THE REMAINDER THAT DID NOT.

6. THE UNIONISTS ALSO CONTENDED THAT FOOD PRICES HAD RISEN AS MUCH AS TWICE THAT OF THE OVERALL CPI DURING THE PERIOD 1973 TO PRESENT. SOME INDIVIDUAL FOODS HAVE INCREASED IN PRICE AT DOUBLE THE CPI. EVEN USING OFFICIAL FIGURES, HOWEVER, IT IS CLEAR THAT ALTHOUGH OVERALL FOOD PRICES HAVE RISEN SHARPLY, THEY HAVE NOT RISEN AS RAPIDLY AS THE CPI.

7. STATISTICAL DISTINCTIONS ASIDE, CHILEAN WORKERS TODAY PRECEIVE THEMSELVES TO BE WORSE OFF THAN THEY WERE IN JANUARY 1973.

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Message Attributes

Automatic Decaptoning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: UNION GOVERNMENT RELATIONS, WAGES, ECONOMIC REPORTS, PRICES
Control Number: n/a
Copy: SINGLE
Draft Date: 26 AUG 1976
Decapton Date: 01 JAN 1960
Decapton Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: CunninFX
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976SANTIA08355
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760326-1201
From: SANTIAGO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760816/aaaaansi.tel
Line Count: 93
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION ARA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: 76 SANTIAGO 7617
Review Action: RELEASED, APPROVED
Review Authority: CunninFX
Review Comment: n/a
Review Content Flags:
Review Date: 15 JUL 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <15 JUL 2004 by ShawDG>; APPROVED <27 OCT 2004 by CunninFX>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: REAL WAGES
TAGS: ELAB, PINT, EFIN, CI, IBRD
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006